

Subject: Good News from LADBS featuring our Year End Statistics

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Special Points of Interest

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**LADBS
Construction
Service Centers**

Downtown
201 N. Figueroa
Street
Los Angeles, CA
90012
(Figueroa Plaza)

Message from the General Manager



Monthly Statistics

June was pretty typical of the year we have been having. New construction was down slightly, from \$438 million last June to \$384 million this year.

During this year July, August, December, January, February and April were higher than last year and September, October, November, March, May and June were lower!

Plan Check revenue, our best indicator of future construction, was still up over last year and that always helps us feel more optimistic about the immediate future.



Year End Statistics

We closely monitor all of our numbers on a daily basis, and we report

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them publicly each month. That process can quickly lead to frayed nerves and ulcers!

It is only when we finally reach June 30th that we can step back and look at our entire Fiscal Year. The following sections of this newsletter will provide year-end totals and how they compare to prior years. I think you'll get some degree of relief from what we have to report. **The bottom line is that total new construction was \$3.3 billion -- up by almost 10% over last year, and up 32% in two years!**

Development Reform

On July 12th Mayor Villaraigosa will host an Open House for the City's new Development Services Case Management Office on the 10th Floor of 201 N. Figueroa Street.

This landmark occasion represents actual implementation of the first phase of the Mayor's new development reform effort.

Case Managers from Planning, Building and Safety, Engineering, Water and Power, and Transportation have moved to this new office to help customers navigate more complicated projects through the City's development review process. This higher level of expertise is designed to supplement the good work of our One-Stop Construction Service Centers for the more routine projects.

We will more completely describe the new Development Service Case Management Office and how it fits into the Mayor's larger development reform effort in our next newsletter.

Updates on the Latest Codes

In June the City Council approved the last three remaining new codes. The Building Code becomes effective August 8th and the Residential and Plumbing codes become effective July 6, 2011. All other codes (Green, Electrical and Mechanical) have been approved and are in effect, starting with the Green Code on January 1, 2011, the Electrical Code on April 22nd, and the Mechanical Code on May 2nd. We are pleased that this process has been completed.

Total New Construction

The graph below is a good representation of what we have gone through!



Mayor Villaraigosa's first term was the highest four years in the history of the City for new construction — peaking in FY2006-07 at \$5.3 billion in building permit valuation. With the collapse of the financial markets in 2008, new construction tumbled and we hit bottom in FY2008-09 at \$2.5 billion -- down 53% in just two years.

In FY2009-10 we turned the corner and started back up, hitting \$3.0 billion – up 20%, and most importantly, the first increase since FY2006-07.

This year we solidified that gain and grew an additional 10% to \$3.3 billion.

\$3.3 billion is only 62% of our high year at \$5.3 billion, but the more heartening point is that it is the second year with growth – modest growth, but still growth.

An important “back story” is the nature of that growth. In FY2009-10 building permit valuation was significantly driven by Mayor Villaraigosa's critically important goal to modernize the badly neglected Los Angeles International Airport. Indeed, of the almost \$810 million in FY2009-10 for the institutional category (see table below) over \$750 million was directly attributable to LAX. In the long run a modernized LAX will benefit our entire economy, but in the short term it also created badly needed construction jobs during the darkest days of the Great Recession.



In FY2010-11 the sector that kept new construction going was primarily multi-family residential projects. More will be said about that in the next section.

Examples of commercial projects that pulled building permits this year included CIM's 338,000 s.f. Midtown Crossing retail development (CD 10, Wesson), the 269,000 s.f. Baxter BioScience facility (CD 4, LaBonge), and another \$496 million in work at LAX (CD 11, Rosendahl)!

Noteworthy projects receiving Certificates of Occupancy included Related's 42-story residential project in Century City (CD 5, Koretz), the 13-story W Hotel project in Hollywood (CD 13, Garcetti) and the final five-story restaurant/office/retail project at LA Live (CD 9, Perry).

Housing Starts

This Fiscal Year 5,553 new dwelling units permitted. The good news is that is up 58% over the 3,573 units last Fiscal Year. The reality check is that is still down 63% from our high point in FY2005-06 with 15,174 units.



Many of the units were entitled as condominiums. However, because financing for condominiums is difficult in today's market, they are now being built for rentals. They typically retain their subdivision maps and can still be converted to ownership units when financing and market conditions warrant.

LADBS does not track condos versus apartments – from our construction perspective, they are all multi-family residential projects. We do keep track of new single family construction – the last two years have been the lowest in over 15 years. Of the 5,553 total housing starts, only 962 were single family residences (SFR). The flood of foreclosed homes has driven down the market for newly constructed SFRs.

Based on what we see coming into Plan Check and overall economic conditions, we expect this trend to continue. Thousands of homes have been foreclosed and those residents need a place to live. Many people who want to buy a condo or SFR simply can't qualify with the new banking regulations. Because of market volatility, many people who could qualify for home ownership are renting while they wait to see how conditions ultimately work out. Moreover, with gasoline continuing its march to \$5 per gallon, more people are looking for homes close to their jobs and mass transit, and those homes are increasingly apt to be in higher density rental residential developments.

Revenues

The construction sector is inherently cyclical and this economic downturn has made projecting our revenues even more difficult. Since 2005, the building and safety functions (plan check, inspection, etc) have been 100% contained within the Department's Enterprise Fund of development fees – we get no City General Fund money for those functions.

As the below chart shows, our annual revenues peaked in FY2006-07 at

\$124.7 million and then bottomed out at \$75.4 million in FY2008-09, a drop of 40% in just 2 years.



With a slowly improving economy and a dramatic reduction of our workforce, we stabilized the department this year and had revenues coming in higher than budgeted and expenditures coming in lower.

For FY2010-11 our revenues were budgeted at \$93.0 million and came in at \$96.9 million. Our expenditures were budgeted at \$98.1 million and came in at \$96.9 million, including a \$2.1 million non-recurring payment for retirements.

We don't have a crystal ball and can't be sure what next year might bring. Based on the projects coming in for plan check and the projects still in the entitlement phase, we are optimistic that next Fiscal Year will be even better than this year and that we will continue a slow but steady recovery. For FY2011-12, we are projecting \$3.45 billion in building permit valuation and \$100 million in total revenues.

One of our challenges will be to match the workload with the workforce. As the last chart shows, our Enterprise Fund workforce went from 899 authorized positions in FY2008-09 to 647 in FY2010-11, a reduction of 252 positions!



As the economy continues to rebound, we will need to work closely with the City's "managed hiring" process to make sure our Department does not become a bottleneck that slows down new construction because of a lack of plan check engineers and building inspectors.

We have taken advantage of this construction slowdown to make significant structural reforms to the City's development review process, so that when we do get back-up to the \$4-5 billion/year range, we will be better prepared to deal with it. In future newsletters we will provide an update on these development reforms.

We will also continue to use this monthly newsletter to update our customers on overall development activity in the City and specific new projects, which are helping us to build a better LA.

Happy New Fiscal Year!

Our Mission Statement

The mission of the Department of Building and Safety is to protect the lives and safety of the residents and visitors of the City of Los Angeles and enhance the quality of life, housing, economic prosperity, and job creation. This is accomplished through advising, guiding, and assisting customers to achieve compliance with the Building, Zoning, Plumbing, Mechanical, Electrical, Disabled Access, Energy, and Green Codes; and local and State laws, through a timely, ethical, cooperative, and transparent process for the facilitation of construction and maintenance of commercial, industrial, and residential buildings throughout the City.

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